

# Montana Taxation of Railroads

- State Taxation of Railroads is Limited by the ***Federal Railroad Revitalization and Regulatory Reform Act of 1976 (“4R’s Act”)***
- 4R’s Act Prevents State Discrimination in Taxation of Railroads by Prohibiting:
  - Assessment of rail transportation property at higher ratio of assessment value to true market value than for that of all other commercial and industrial property;
  - The levying of taxes on rail transportation property at a tax rate higher than that applied to all other commercial and industrial property; and
  - The imposition of other taxes that discriminate against rail transportation property.

# Property Taxes on Railroads in Montana

## Basic Formula

In general, property taxes in Montana are calculated as follows:

- $\text{Market Value} \times \text{Taxable Valuation Rate} = \text{Taxable Value}$
- $\text{Taxable Value} \times \text{Mill Levy} = \text{Tax Liability}$

# Part I - Property Taxes on Railroads in Montana

## 5 Step Process:

- Calculate Total System Value
- Allocate Portion of Total System Value to Montana
- Allocate Montana Value to Taxing Jurisdictions
- Calculate Taxable Valuation Rate and Taxable Value
- Apply Mill Levies to Determine Total Tax Liability

# Property Taxes on Railroads in Montana

- Railroads, similar to other industries, are subject to the “unit valuation” (central assessment) approach to property taxation
- Unlike other types of centrally-assessed property, however, the unit (systemwide) value of railroads is established not through an annual appraisal of market value, but through a formulary approach

# Calculate Total System Value

(Beginning with TY1999)

Current Year Total System Value =  
“Base Value” X “Value Change Factor”

“Base Value” is Total System Value in Prior Year

“Value Change Factor” is Determined by Three  
- Factor Formula Provided for at 15-23-205,MCA

# Calculate Total System Value - “Value Change Factor”

The “Value Change Factor” is the Sum of  
Three Factors Weighted as Follows:

- **The “Income Change Factor” (50%)**

$(\text{Change in Earnings}) / (\text{Change in Capitalization Rate})$

- **The “Gross Profit Margin Change Factor” (25%)**

$$\frac{(\text{Gross Profit Margin}_{t-1} + \text{Gross Profit Margin}_{t-2})}{(\text{Gross Profit Margin}_{t-2} + \text{Gross Profit Margin}_{t-3})}$$

- **The “Property Change Factor” (25%)**

$(\text{System Cost}_{t-1}) / (\text{System Cost}_{t-2})$

# Allocate Portion of Total System Value to Montana

Value Allocated to Montana Equals:

“Total System Value”

X

Average “Montana Allocation Factor”  
(over previous two years)

“Montana Allocation Factor” is provided for at 15-23-205(5), MCA

# Allocate Value to Montana - “Montana Allocation Factor”

“Montana Allocation Factor” is the average of the following five ratios:

- Montana Track Miles / Systemwide Track Miles
- Montana Revenue Ton Miles / Systemwide Revenue Ton Miles
- Montana Investment in Road and Equipment / Systemwide Investment in Road and Equipment
- Montana Operating Revenue / Systemwide Operating Revenue
- Montana Railcar and Locomotive Miles / Systemwide Railcar and Locomotive Miles



# Allocate Montana Value Across Taxing Jurisdictions

- Allocation procedure provided for in rule (42.22.122, ARM)
- Total Montana Value is Divided Between
  - “Situs” Value (e.g., buildings) and
  - “Non-situs” Value (e.g., track mileage)

# Allocate Montana Value Across Taxing Jurisdictions

- **Non-situs property** is allocated on the basis of track mileage weighted
  - 100% for mainline track
  - 60% for branch line track, and
  - 40% for side track
- **Situs property** is allocated on the basis of rules provided for at 42.22.122, ARM.

# Calculate Taxable Valuation Rate

- Calculation of Taxable Valuation Rate for Railroads (Class 12 Property) is Provided for at 15-6-145, MCA
- Calculation is Specifically Designed to Comport with the Requirements of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R's Act)
- Rate Reflects Average Composite Rate Applied to All Commercial Property in State (Adjusted by Sales Ratio Study for Class 4 Commercial Property)

# TY2005 Taxable Valuation Rate

## BEFORE ADJUSTMENT FOR SALES/ASSESSMENT RATIO STUDY

Property Class and Description		Market Value	Taxable Value	Tax Rate
4	Commercial and Industrial Property	9,356,497,575	<b>298,053,255</b>	<b>3.19%</b>
7	Coop Rural Electric Associations	11,917,964	953,438	8.00%
8	Business Equipment	4,202,563,963	123,795,409	2.95%
9	Cent.-Assd. Electric/Natural Gas Cos.	2,069,383,285	248,326,014	12.00%
13	Elec. Gen. And Telecom. Prop.	2,070,090,669	124,205,455	6.00%
Totals		17,710,453,456	795,333,571	<b>4.49%</b>

## AFTER ADJUSTMENT FOR SALES/ASSESSMENT RATIO STUDY

Property Class and Description		Market Value	Taxable Value	Tax Rate
4	Commercial and Industrial Property	9,356,497,575	<b>164,346,565</b>	<b>1.76%</b>
7	Coop Rural Electric Associations	11,917,964	953,438	8.00%
8	Business Equipment	4,202,563,963	123,795,409	2.95%
9	Cent.-Assd. Electric/Natural Gas Cos.	2,069,383,285	248,326,014	12.00%
13	Elec. Gen. And Telecom. Prop.	2,070,090,669	124,205,455	6.00%
Totals		17,710,453,456	661,626,881	<b>3.74%</b>

# Calculate Total Tax Liability

- Taxable Valuation Rate is Applied to Market Value Within Each Taxing Jurisdiction to Get Certified Taxable Value for Each Taxing Jurisdiction
- Consolidated State and Local Mill Levies For Each Taxing Jurisdiction are Applied to Total Taxable Valuation Within Each Taxing Jurisdiction to Get Tax Liability For Each Taxing Jurisdiction
- Summing Tax Liabilities Across All Taxing Jurisdictions Provides Total Montana Tax Bill for the Railroad

# Taxation of Railroads

## Recent State Legislation

HB703 (2005, Bergren) would have modified the taxation of railroads in Montana by:

- Adjusting total system value by the ratio of average agricultural commodity freight rates charged shippers in Montana to average agricultural commodity freight rates charged shippers outside Montana.
- This ratio could not be less than 1. (Based on a study commissioned by the 2003 Legislature, the fiscal note for HB703 indicated that the ag commodity freight rate factor would be around 1.6 (increasing total taxable valuation by 60%).)

# Part II – Railcar Companies

- Same Basic Formula:

$$(MV) \times (TV \text{ Rate}) \times (\text{Mill Levy}) = \text{Tax Liability}$$

- Total Market Value of Railcar Company  
Determined by Valuing Each Car Based On:

**Acquired Cost – Depreciation + Improvements**

- To Aide in Administration, all Railcars have Markings Designating Them as Either Railcar Co. Property or Railroad Co. Property



# Railcar Companies – Market Value

- Portion of Total Railcar Co. Market Value is Allocated to Montana Based on the Ratio of Car Miles Traveled in State to Total Car Miles Traveled
- Allocation Provided for in 15-23-213, MCA and 42.22.122, ARM
- Allocation Relies on “Default Speeds” Designated in Rule (by Type of Railcar) or a “Speed Study” Conducted by Railcar Company



# Railcar Company – Tax Liability

- Montana Market Value Multiplied by Same Taxable Valuation Rate for Railroad Companies Provides Taxable Value of Railcar Company
- Taxable Value Multiplied by ***Average Statewide Mill Levy*** (510 Mills for TY2005) Applied to All Commercial and Industrial Property Provides Total Tax Liability
- ***All Revenue from Railcar Company Tax is Deposited in State General Fund*** - No Allocation to Local Taxing Jurisdictions Required (15-23-215, MCA)